

To Our Shareholders:

1979 is off to a promising start for Zayre Corp. Total sales (excluding those of leased departments) rose 13.5% to \$309,657,000 during the 13 weeks ended April 28, 1979, and net income increased to \$324,000, or \$.06 per share, as compared with \$78,000, or \$.01 per share last year. Earnings this year include \$160,000, or \$.03 per share, from the acquisition in the open market of this year's sinking fund requirement on the Company's convertible subordinated debentures.

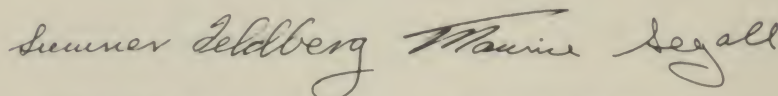
Net earnings for the full 52-week trailing year period through April 28th amounted to \$14,263,000, or \$2.76 per primary share, up from \$11,108,000, or \$2.20 per share in the comparable prior period.

The tone of our sales has been excellent right from the beginning of the year, thus building upon the momentum of last year's strong same-store gains. Apparel sales have been particularly noteworthy which has, in turn, had a positive influence on merchandise margins. On April 1st, our "Market Development Program" made its debut in Chicago and Boston under the umbrella of our "Take Another Look" multi-media promotional campaign. Since the first of the year, 42 of our units in these markets had been remodeled simultaneously. Customer response to the distinctly improved look and content of these stores has continued to exceed expectations.

As noted in our prior reports, this is an extremely important effort for Zayre Corp. — designed to markedly elevate the volume and profitability of all stores it covers. Our programs combine substantial physical renovation, aggressive merchandising, more efficient replenishment with higher store operating standards and extensive data transmission innovations. Our Miami stores will be remodeled this summer and other key markets have been scheduled for next year.

Inventories have remained under tight control and are up 5.23%; considerably less than the increase in our sales. Expenses are within budget, and include the full start-up costs of our new marketing programs as well as continued inflationary cost pressures. To better support our store replenishment efforts, a new 240,000 square foot distribution facility in Clinton, Massachusetts becomes operational this month.

Respectfully submitted,



SUMNER FELDBERG
Chairman of the Board

MAURICE SEGALL
President

May 16, 1979

Zayre Corp. and Consolidated Subsidiaries

CONDENSED BALANCE SHEETS (Unaudited)

(Dollars in Millions)

| | April 28, 1979 | April 29, 1978 ⁽¹⁾ |
|---|-------------------|----------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 18.0 | \$ 17.0 |
| Accounts receivable and prepaid expenses | 17.5 | 15.4 |
| Merchandise inventories | 354.0 | 336.4 |
| Total current assets | 389.5 | 368.8 |
| Property, net of depreciation and amortization | 93.9 | 83.6 |
| Property under capital leases, net of amortization | 72.5 | 72.9 |
| Other assets | 8.6 | 9.1 |
| TOTAL ASSETS | \$564.5 | \$534.4 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|----------------|----------------|
| Current liabilities | | |
| Notes payable to banks | \$ 17.0 | \$ 31.0 |
| Current instalments of long-term debt ... | 8.1 | 9.4 |
| Accounts payable and accrued expenses | 190.4 | 174.8 |
| Current obligations under capital leases . | 5.6 | 5.2 |
| Total current liabilities | 221.1 | 220.4 |
| Long-term debt (includes real estate mortgages) | 113.2 | 98.5 |
| Long-term obligations under capital leases | 86.3 | 86.1 |
| Deferred income taxes | .9 | 1.3 |
| Shareholders' equity | 143.0 | 128.1 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$564.5 | \$534.4 |

FINANCIAL SUMMARY (Unaudited)

(Dollars in Thousands Except Per Share Amounts)

| | |
|--|--|
| Net sales (excluding leased department sales) | |
| Cost of sales, including buying and occupancy costs .. | |
| Selling, general and administrative expenses | |
| Interest costs: | |
| Debt | |
| Capital leases | |
| Total expenses | |
| Income before income taxes | |
| Provision for federal and state income taxes | |
| Net income | |
| Net income per common share: | |
| Primary | |
| Fully diluted | |
| Average number of common shares outstanding for primary computation | |
| Discount department stores | |
| Specialty stores | |

(1) Restated for capitalization of leases in accordance with the Statement of Financial Accounting Standards No. 13.

(2) The Company's fiscal year ends on the last Saturday in January.

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION (*Unaudited*) (Dollars in Millions)

| 13 Weeks Ended | | 52 Weeks Ended ⁽²⁾ | |
|-------------------|----------------------------------|-------------------------------|----------------------------------|
| April 28, 1979 | April 29, 1978 ⁽¹⁾ | April 28, 1979 | April 29, 1978 ⁽¹⁾ |
| \$309,657 | \$272,918 | \$1,430,848 | \$1,292,403 |
| 235,255 | 209,795 | 1,102,118 | 1,011,152 |
| 68,866 | 58,671 | 280,740 | 241,339 |
| 3,074 | 2,320 | 12,667 | 9,828 |
| 1,887 | 1,981 | 7,975 | 8,026 |
| 309,082 | 272,767 | 1,403,500 | 1,270,345 |
| 575 | 151 | 27,348 | 22,058 |
| 251 | 73 | 13,085 | 10,950 |
| \$ 324 | \$ 78 | \$ 14,263 | \$ 11,108 |
| \$.06 | \$.01 | \$2.76 | \$2.20 |
| \$.06 | \$.01 | \$2.62 | \$2.10 |
| 5,140,892 | 5,036,507 | 5,141,952 | 5,002,789 |
| 251 | 252 | | |
| 297 | 262 | | |

Financial Accounting Standards No. 13, "Accounting for Leases".

| | 13 Weeks Ended | |
|---|-------------------|----------------------------------|
| | April 28, 1979 | April 29, 1978 ⁽¹⁾ |
| SOURCE OF WORKING CAPITAL | | |
| Funds provided from operations | \$ 5.2 | \$ 4.8 |
| Additional long-term borrowings | 15.0 | 2.2 |
| Leased property disposals, net | — | 1.4 |
| | \$20.2 | \$ 8.4 |
| APPLICATION OF WORKING CAPITAL | | |
| Decrease in long-term debt | 1.9 | 2.5 |
| Decrease in obligations under capital leases | 1.3 | 2.8 |
| Property additions | 5.8 | 3.3 |
| Other | .2 | .1 |
| | 9.2 | 8.7 |
| Increase (decrease) in working capital | 11.0 | (.3) |
| | \$20.2 | \$ 8.4 |
| DETAILS OF WORKING CAPITAL INCREASE (DECREASE) | | |
| Increase (decrease) in current assets: | | |
| Cash | (5.0) | (6.5) |
| Marketable securities | (13.7) | (12.0) |
| Accounts receivable and prepaid expenses | 5.7 | 4.7 |
| Merchandise inventories | 100.0 | 94.1 |
| | 87.0 | 80.3 |
| Increase (decrease) in current liabilities: | | |
| Notes payable | 17.0 | 31.0 |
| Current instalments of long-term debt . . . | (1.2) | (.6) |
| Accounts payable and accrued expenses . | 60.1 | 50.2 |
| Current obligations under capital leases | .1 | — |
| | 76.0 | 80.6 |
| Increase (decrease) in working capital | \$11.0 | \$ (.3) |

First Quarter Report to Shareholders

Zayre

*** Zayre Corp.**

Framingham, Massachusetts 01701

CHANGE OF ADDRESS: Shareholders are requested
to notify Corporate Services Department
State Street Bank and Trust Co.
P.O. Box 5003, Boston, Mass. 02107

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. DEPT.
CORPORATION FILE



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